



Value Investors: My Top Marijuana Stock Pick for 2020 Is Surprisingly Cheap

Description

Most value investors are staying a long way away from the marijuana sector, and it's easy to see why.

The majority of these companies are nowhere close to profitable. They're rapidly burning through cash with little hope of raising more. So, drastic steps are being taken, including mass layoffs, potential asset sales, and executive shake-ups. These companies need big changes to be able to compete in this new world that's lacking investor enthusiasm.

There's another problem that looks poised to plague the marijuana market, too. The country is awash with legal weed, but demand is still a little weak. Many cannabis users still have their dealer on speed dial, since the black market is generally much cheaper than the legal option.

With these two factors hitting the sector hard, it's easy to see why many of the [leading pot companies](#) are down 50-75% from their 2019 highs. In fact, I wouldn't be surprised to see some of these stocks go to zero, although that likely won't happen for another year or two.

One, however, is well positioned to make it through this carnage. I believe it could end up being a very compelling investment opportunity for value investors. Yes, really. Let's take a closer look.

This company is not like the others

Unlike the rest of the sector, which had to deal with a lot of growing pains, **Village Farms International** (TSX:VFF)([NASDAQ:VFF](#)) took a completely different path to marijuana production.

The company has been around for decades now, using Vancouver-area greenhouses to grow produce. Village Farms tomatoes, cucumbers, and peppers were staples in both Canadian and U.S. supermarkets. Its controlled growing environment gave it a better end product, which grocery stores would often charge a premium for.

Recently, as the marijuana boom engulfed the Canadian markets, Village Farms announced a partnership where it would pivot to marijuana growth. It has already converted 50 acres worth of

greenhouse space to pot production, with another 60 acres in the works. 2021's production is expected to be 150,000 kg of marijuana, which would immediately vault Village Farms into one of Canada's largest growers.

Remember, the company has been operating these greenhouses for years now. Converting them to marijuana production is much cheaper than starting from scratch. It also already has a bunch of plant experts on staff; it didn't have to go on a major hiring binge. And the company still earns plenty of cash flow from the produce part of its business, which is now largely sourced in Mexico.

These factors combine to make Village Farms a low-cost producer. In fact, the company recently reported all-in costs of \$0.63 per gram, which is the lowest production cost in all of Canada. That's a very good place to be.

It gets better. According to analysts, Village Farms can expect to earn healthy profits in 2020 — something most other marijuana producers can only dream of. Analysts predict a bottom line of \$0.64 per share. To put that into perspective, Village Farms shares trade at \$6.24 each as I write this. This puts the stock at less than 10 times forward earnings.

Analysts also have an average price target in the \$26 per share range. I'm not quite that bullish, but the stock could definitely see big upside potential if investors fall back in love with the marijuana sector again.

The bottom line

[Village Farms](#) is poised to enter a very elite club. It'll likely be Canada's only comfortably profitable pot producer in 2020 — something that should attract all different kinds of investors. It creates a margin of safety that should be especially interesting for value investors.

Village Farms is, hands down, my top pick in the sector. I believe it'll easily outperform its peers going forward.

CATEGORY

1. Cannabis Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:VFF (Village Farms International, Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Cannabis Stocks
2. Investing

Date

2025/07/01

Date Created

2020/02/15

Author

nelsonpsmith

default watermark

default watermark